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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Vermont Pension Investment Committee

FROM: Beth Pearce, State Treasurer

RE: ESG Recommendations

DATE: November 2015

The Treasurer's Office is requesting authorization from VPIC to pursue, where feasible, co-filer opportunities for VPIC as noted below. These recommendations are consistent with the VPIC Proxy Policy Statement and the VPIC and Treasurer's efforts on the Carbon Asset Risk Project, per the resolution adopted by VPIC on September 24, 2013.

This list will provide the Treasurer's Office with authorization to move forward with plans to co-file shareholder resolutions, where feasible. Information on filers and co-filers is fluid- based on potential re-file of prior resolutions and planned filings and is subject to change.

1. **Public Policy & Lobbying Review – Climate & Energy**

<u>**Request**</u>:
Resolutions generally request that the Board conduct a comprehensive review of the company's positions, oversight and processes related to public policy advocacy on energy policy and climate change. This would include an analysis of political advocacy and lobbying activities, including indirect support though trade associations and other organizations.

Reviews generally would include:

- Review and confirm company positions and regulations are in-line with the reductions stipulated by the Intergovernmental Panel on Climate Change (IPCC)
- Board oversight exists for the company's public policy advocacy on climate;
- Direct/indirect expenditures for issue ads designed to influence climate change legislation and elections;
- Engagement with climate scientists and other stakeholders involved with policy discussions
- Proposed actions as a result of this review

Outcome:
Increase disclosure of companies' influence, participation and funding of climate positions with organizations and through legislation.

Companies (filing deadline/tentative lead filer)*:
Devon Energy (DVN) 12/22/2015 Unitarian Universalist Association
Exxon Mobil (XOM) 12/16/2015
Chevron (CVX) 12/11/2015 Needmor Fund

Other Information:
Connecticut has expressed interest in co-filing onto the Devon Energy resolution*

2. Carbon Asset Risk – Disclosure of Risk Mitigation Options

Request:
Prepare and publish an annual report, with board oversight, analyzing the resilience of the company's portfolio to demand scenarios consistent with meeting the globally agreed upon 2 degree target. The review should include a full assessment, including financial risks, of the reserves and resources affected through 2040 and beyond.

Outcome:
Increase transparency of financial risks associated with a company's business model under a 2 degree target scenario through reporting in an annual publication.

Companies (filing deadline/tentative lead filer):
Exxon Mobil (XOM) 12/16/2015 NY State, multiple filers
Chevron (CVX) 12/11/2015 Multiple filers
FirstEnergy (FE) 12/3/2015 As You Sow
Chesapeake Energy (CHK) 12/12/2015 Unitarian Universalist Association

Other Informationm:
The FirstEnergy filing is targeting infrastructure and coal risk disclosure.

3. Greenhouse Gas Goals

Request:
Adopt quantitative, company-wide goals, taking into consideration the IPCC guidance for reducing total GHG emissions and issue a report on the company's plan to achieve these goals.

Outcome:
Create specific, quantitative, time bound carbon dioxide reduction goals to decrease the company's corporate carbon dioxide emissions

Companies (filing deadline/tentative lead filer):
FirstEnergy (FE) 12/3/2015 Calvert (assumes re-file)*

Other Information:
Last year this resolution received 19.4% of the vote.

4. Support Proxy Access Bylaw Amendments

Request:
Proxy access enables eligible long-term shareholders to nominate their own director candidates in a company's proxy statement.

From NY City Proxy resolutions "The number of shareholder-nominated candidates appearing in proxy materials shall not exceed one quarter of the directors then serving. This bylaw, which shall supplement existing rights under Company bylaws, should provide that a Nominator must: a) have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination; b) give the Company, within the time period identified in its bylaws, written notice of the information required by the bylaws and any Securities and Exchange Commission rules about (i) the nominee, including consent to being named in the proxy materials and to serving as director if elected; and (ii) the Nominator, including proof it owns the required shares (the "Disclosure")…"

Citing the CFA Institute's 2014 studies, NYC concluded that proxy access: would "benefit both the markets and corporate board rooms, with little cost or disruption."[1]

Outcome:
According to a recent report, "proxy access predominated corporate governance issues for the 2015 proxy season, with over 100 proposals submitted on the topic, compared to 18 in 2014. Shareholder proponents achieved significant success in 2015, with an average pass rate of 54% on the 88 proposals that came to a vote, compared to a pass rate of 34% in 2014. The 2015 proxy season also saw an increase in negotiation and implementation of proxy access by board action or submission of a binding management proposal. These trends will likely continue in the 2016 proxy season."[2]

As noted by CERES, " In November 2014, New York City Comptroller Scott Stringer and the New York City Pension Funds launched the Boardroom Accountability Project, a major initiative to grant long-term shareowners the right to nominate directors using the company's proxy statement, known as "proxy access". As a first step, the NYC Funds submitted shareowner proposals seeking proxy access at 75 companies for the 2015 proxy season, including 33 of the most carbon-intensive energy companies in the portfolio. Because most of the energy companies strongly opposed the proposals, the NYC Funds reached only one negotiated settlement, with Whiting Petroleum, which agreed to enact a proxy access by-law. Investor support for the 32 proposals that went to vote in the 2015 proxy season was overwhelming, averaging 58% of votes cast. While the votes are non-binding, at press time for this report several energy companies have already responded to the votes by enacting meaningful proxy access by-laws. With meaningful proxy access, we believe investors will be better positioned to have productive engagements with

[1] NYC Shareholder Resolutions
[2] Source: JD Supra Business Advisor, "Proxy Aces Update- Preparing for the 2016 Proxy Season", 11/18/2015.

energy companies around board quality and composition in the context of growing climate change risks." [3]

Companies (filing deadline/tentative lead filer):
NY City Comptroller's Office, others - At this time the Treasurer's Office is requesting authorization to list VPIC in support these initiatives.

Other Information:
There is an issue of companies limiting the number of shareholders who can aggregate their holdings to meet the ownership requirement.

** Institutional investor filing plans are still tentative as of the date of this memo*

[3] CERES, "Shareholders Spur Action on Climate Change: Company Commitments from the 2014 & 2015 Proxy Seasons", October 2015.

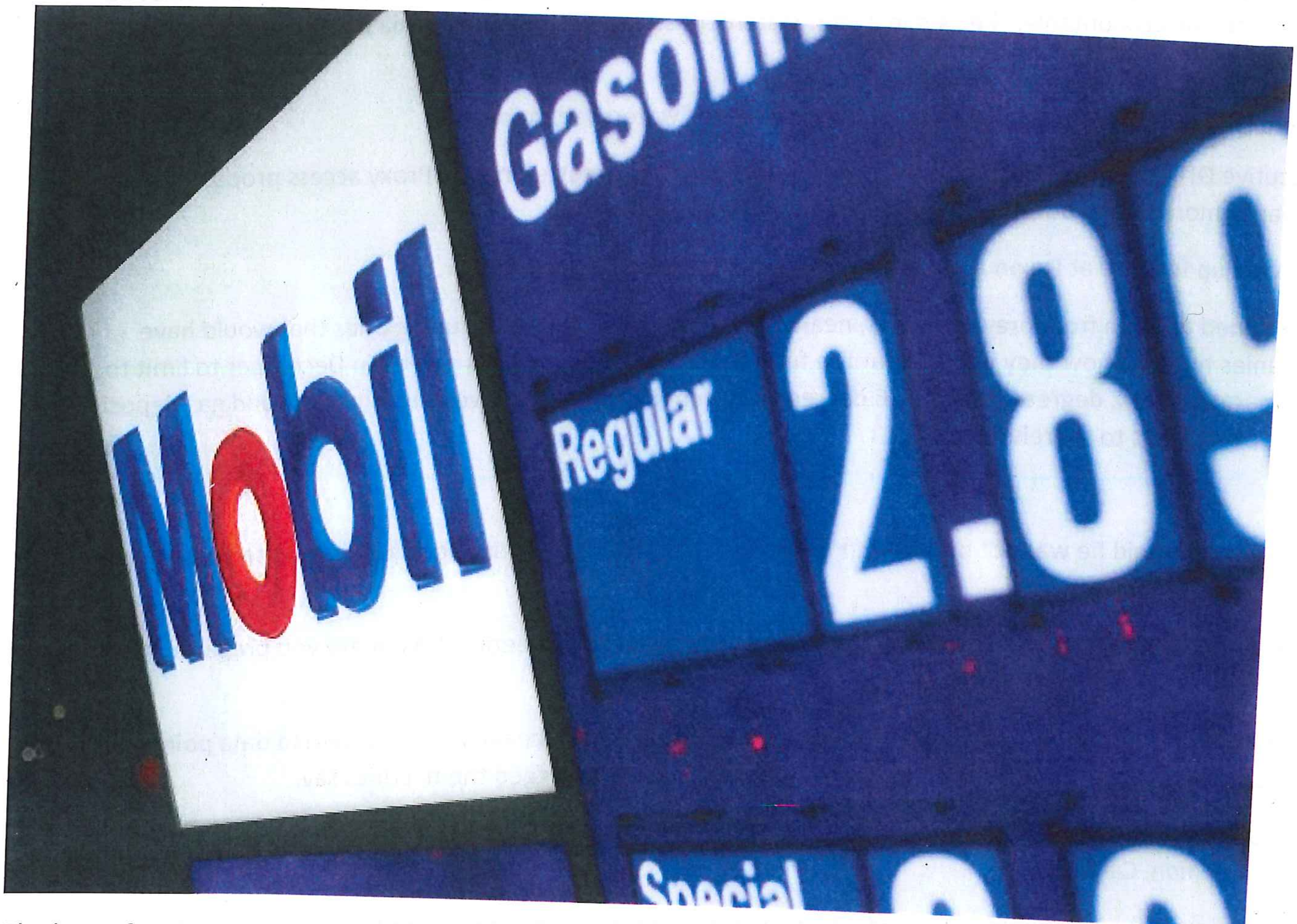
Business | Wed May 25, 2016 5:43pm EDT

Related: ENVIRONMENT

http://www.reuters.com/article/us-oil-climatechange-idUSKCN0YG2I6

Exxon shareholders pass measure that may put climate expert on board

DALLAS/SAN RAMON, Calif. | By Luc Cohen and Rory Carroll



The logo of Down Jones Industrial Average stock market index listed company Exxon Mobil is seen in Encinitas, California April 4, 2016.

Reuters/Mike Blake/File Photo

DALLAS/SAN RAMON, Calif. Voters at Exxon Mobil Corp's (XOM.N) annual meeting on Wednesday approved a measure to let minority shareholders nominate outsiders for seats on the board, meaning a climate activist could eventually become a director at the world's largest publicly traded oil company.

The so-called proxy access measure was the first Exxon shareholder proposal since 2006 to be approved, and it was the only one of 11 proposals related to climate change to pass at meetings held on Wednesday by Exxon and fellow U.S. major Chevron Corp (CVX.N).

This year's meetings were arguably the tensest ever, coming on the heels of the Paris accord to curb fossil fuel emissions and as New York's attorney general investigates allegations from environmentalists that Exxon misled the public about climate change risks.

Exxon has denied this and complained of being unfairly targeted.

More than 60 percent of Exxon shareholders backed proxy access, which was narrowly defeated last year. Exxon's board had opposed the proposal, saying it risked increasing the influence of "special interest groups."

New York City Comptroller Scott Stringer, who sponsored the proxy access proposal, urged the board to enact it.

"If this company is to properly address fundamental long-term risks like climate change, its board of directors must be diverse, independent, and accountable," he said in a joint statement signed with the California Public Employees' Retirement System.

Stringer later called Exxon shareholders' approval of the measure a "watershed moment."

Exxon Chief Executive Officer Rex Tillerson said the board would weigh the matter in July. Proxy access proposals were approved last year at more than a dozen oil companies, including Chevron.

The raft of proposals up for vote at Exxon and Chevron more than doubled from last year.

Still, while some gained traction from previous years, nearly all the measures failed, including ones that would have forced the companies to detail how they will plan for the future after 195 governments agreed in December to limit the rise in global temperatures to 2 degrees Celsius (3.6 degrees Fahrenheit), or to stop investing in new oil and gas deposits by paying out more dividends to shareholders.

PROTESTERS

Chevron CEO John Watson said he was not opposed to the Paris accord, but is against efforts to put a price on carbon emissions.

"Carbon pricing means raising prices on everything," he told reporters after the meeting. "What are you prepared to live without?"

While BP Plc (BP.L), Statoil ASA (STL.OL) and other European oil companies have begun releasing myriad data points on how their businesses will respond to climate change, Chevron and Exxon have lagged them, critics say.

Two dozen protesters holding signs that said "keep the oil in the ground" lined the entrance to Chevron's corporate headquarters in San Ramon, California.

In Dallas, a group of protesters, estimated at around 70 by one organizer, representing groups like 350.org and the Sierra Club, gathered in front of a church across the street from the meeting.

"Exxon's feeling the heat from all sides," said Anna Kalinsky, the granddaughter of a former Exxon climate scientist, citing investigations into the company from several state prosecutors.

They held signs reading "keep it in the ground" and "Exxon lied, the planet fried."

Deborah Nixon, an organizer with the local Dallas Sierra Club, said some members who held Exxon shares and would be attending the meeting.

In a legal filing this week to shoot down a subpoena from the U.S. Virgin Islands demanding documents on the company's deliberations about climate change, Exxon's lawyers said that since 2006 the company has been saying that "the risk to society and ecosystems from rising greenhouse gas emissions could prove to be significant."

The lawyers also called inquiries by state prosecutors a "fishing expedition" that were stifling free speech and trying to create public policy instead of enforce laws.

The Washington Post

On Leadership

ExxonMobil shareholders just approved a powerful new measure that could reshape investors' influence on company boards

By Jena McGregor May 25 at 8:42 AM

ExxonMobil resoundingly lost a vote over a shareholder resolution Wednesday that would enable large shareholders, with 3 percent or more of outstanding shares, to nominate their own candidates for the board directly on the company's ballot. During the meeting, a representative of three New York City municipal employees' pension funds said that ExxonMobil's board was the least diverse of the six biggest international oil and gas companies and that it ran the danger of "group think."

Shareholders agreed, with nearly 62 percent of shareholders voting in favor of the measure. In a filing, the company defended its current method of choosing board members, citing high vote tallies for those directors and saying the system would "undermine a business model that has long served the interest of shareholders well."

As a result, ExxonMobil became the biggest company yet this year to see investors approve what's known as "proxy access," a wonky but potentially powerful change that's quickly reshaping investors' ability to influence corporate boards. For years, shareholders have sought that right, which they say is a far less expensive and direct way to have a say in who gets considered for a company's board.

Suddenly, they're actually getting it, as the number of companies changing their bylaws to allow for proxy access grows at a record-setting pace. The proxy adviser Institutional Shareholder Services reports that before 2014, less than one percent of companies in the S&P 500 gave investors the ability to put their own candidates on the company's ballot. As of Tuesday, 36 percent are offering it -- including General Electric, Apple and Citigroup.

Adoption is happening so fast, says ISS special counsel Patrick McGurn, that it's not unrealistic to say that half of all the largest public companies could have the rule in place within a year. "Since 2014 -- in the course of two years -- the numbers have gone from nothing to virtually a third," McGurn said. Compared to the pace of change on other rules about how corporations are governed, "there's only a couple of issues that have even been in the same ballpark," McGurn says, and even then, the change came slower.

So what does the sea change on this arcane corporate rule mean for companies and investors, both large and small? And why is it changing so rapidly? McGurn and Nell Minow, vice chair of the governance consulting firm ValueEdge Advisors, helped explain why investors see this as such a critical change.

So what is "proxy access," exactly, and why does it matter?

The nominating committee of every board selects directors -- the powerful people at the top of every major corporation who hire and fire the CEO, advise on strategy and represent shareholders' interests -- and shareholders vote on them. But investors aren't typically involved in choosing the candidates, and their votes against directors they see as doing a poor job don't always result in exits from the board.

As a result, shareholders have complained for years that they don't have enough say in who is chosen to hold these powerful positions. "We've always bizarrely used the term 'election' when we talk about picking directors, but it doesn't reflect any dictionary definition of elections," Minow says.

Until recently, in order for investors to select directors of their choosing as candidates, they had to wage a costly proxy contest, which requires investors to spend millions to do things such as mail out separate ballots, buy lists of shareholders, and pay a host of lawyers, Minow says. While some investors--such as deep-pocketed hedge funds or activist investors--may be willing to do that, it's not something that interests many large shareholders.

Companies, meanwhile, argue that proxy access isn't necessary because it could disrupt their processes for choosing independent directors, undermine board effectiveness and even be harmful if it injects people into these powerful roles who don't represent the views of all shareholders. For instance, ExxonMobil's board said in a company filing that "we do not believe that there is any meaningful evidence that proxy access would improve corporate governance or enhance market capitalization" and that "most concerning is the potential risk for the proposal to increase the influence of special interest groups and lead to single-issue participants on the board."

What -- or who -- is behind the recent push?

The Dodd-Frank Wall Street Reform and Consumer Protection Act authorized the Securities and Exchange Commission to implement a proxy access rule, and the SEC passed one, but business groups challenged the rule in court, leaving it on the shelf for now. So instead, shareholders have taken what Minow calls a "company by company" approach, mounting campaigns to win the right.

The person leading that charge is Scott Stringer, the comptroller of New York City, the person responsible for city employees' pension funds. He filed 75 proposals in 2015, and he has filed 72 proposals in 2016, helping to spur many more by individual investors, bringing the total to some 200 resolutions this year, a number McGurn says is is the largest on a single topic in one proxy season ever: "I've described this as sort of a parade that was waiting for a drum major, and I think that's clearly what happened here."

Why are more corporations agreeing to the demands?

Stringer's success, Minow says, comes from carefully picking targets where shareholder sentiment might be ripe for wanting more say about the company's board. "He's been very successful at getting a lot of companies to adopt it voluntarily and getting a high level of shareholder support," he says. "He's been very smart about picking companies where shareholders are looking to make a change."

Though there have been some contentious votes, many other companies have negotiated with shareholders or voluntarily changed their bylaws, a capitulation that appears to recognize the concept is headed toward becoming a standard practice. Many "are seeing the handwriting on the wall," McGurn says. "If you're pretty sure it's going to receive majority support, why not go ahead and voluntarily adopt the standard, rather than get into a multi-year battle with shareholders?"

But how will this really affect individual investors?

Before getting too interested in nominating your own favorite corporate guru to the ballot of a company where you hold shares, you should realize the concept is designed to help very large, long-term shareholders have more say in the process. The majority of the proposals and bylaw changes that have been adopted require investors or groups of investors who want to put a director on the ballot to hold at least three percent of a company's stock -- a massive number of shares at the largest corporations -- for at least three years.

Still, Minow says she believes the changes will eventually prompt boards to be even more conscious of their independence, strengths and accountability to avoid the threat of investor-nominated directors. "When I first got into this business [30 years ago], O.J. Simpson was on five boards. A CEO's father was on the compensation committee [of] a public company. Boards have come a long way since then, and this is the next step, so they'll do even better in the future."

So have any directors been elected this way yet?

No, McGurn says. That's the odd thing about this fight: Though investors have tried to win this right for years, no directors have yet been named through proxy access. That could be because it's so new, or because investors see it as a "last resort" -- a kind of nuclear option -- only intended to be used after the two sides engage, negotiate, vote against existing directors and the like. But that could evolve. "It's only a matter of time before we see some test case use of proxy access itself," McGurn says. "I do believe in the long run it'll be a right shareholders exercise more frequently."